

UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION

In the Matter of  
  
Philip Morris, Inc.,  
a corporation.

FILE NO. 892-3095

## ORDER TO FILE SPECIAL REPORT

Pursuant to a resolution of the Federal Trade Commission dated July 24, 1989 entitled "Resolution Requiring Annual Reports From Cigarette Manufacturers," a copy of which is enclosed, Philip Morris, Inc., hereinafter referred to as "the company," is ordered to file a Special Report with the Commission not later than Sept. 29, 1989, containing the information specified herein.

Your report is required to be subscribed and sworn to by an official of the company who has prepared or supervised the preparation of the report from books, records, correspondence, and other data and material in your possession.

Your report should restate each item of this Order with which the corresponding answer is identified. If any question cannot be answered fully, give such information as is available to you and explain wherein and why your answer is incomplete. Please supply written answers to the following questions:

1. The subscriber to your report is to give his or her full name and business address and state his or her official capacity.
2. State the full name of the company and its official address, and its date and state of incorporation.
3. State whether the company is a subsidiary company; whether the company has a subsidiary company; report the same information specified in item two (2) as regards each parent or subsidiary.

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4. Report the total number of cigarettes sold in the United States by the company and any of its subsidiary or parent companies during calendar 1988.

#### INSTRUCTIONS FOR COMPLETION OF THE CIGARETTE REPORT FORM

Please fill out a separate Cigarette Report Form for each variety of cigarette sold in the United States by the company or any of its subsidiary or parent companies during calendar year 1988, including varieties sold in a test market or on a limited market basis. Other than in the case of generic and private label cigarettes, the term "variety of cigarettes" refers to cigarettes that could have been differentiated by consumers according to any of the information reported in Items 2 through 9 on the Cigarette Report Form. In the case of generic and private label cigarettes, the term "variety of cigarettes" refers to cigarettes that could have been differentiated by consumers according to Items 3 through 9 on the Cigarette Report Form. Separate production runs, changes in "tar" or nicotine and other minor modifications in any brand variety reported upon need not be reported on separate forms. You must complete Items 11 and 12 for those cigarettes in production or withdrawn from sale during calendar 1988.

#### LINE-BY-LINE EXPLANATION

- (1) YEAR COVERED: Refers to the calendar year for which data or other information is being reported.
- (2) BRAND FAMILY NAME: Refers to the brand family identified on the cigarette pack or in advertising. If the product is a generic or private label cigarette indicate so by placing a check after the word "generic." If the cigarette is a generic or private label cigarette complete a separate Cigarette Report Form for each distinct variety.
- (3) VARIETY DESCRIPTION: Refers to the variety description as identified on the cigarette pack or in advertising. The variety description typically includes a reference to certain product characteristics such as product length, filter/non-filter, hard pack/soft pack, menthol/non-menthol, deluxe/light/ultra-light, etc. This, and all remaining items on the Cigarette Report Form, should be completed for each variety of generic or private label cigarettes as well as for each named variety of cigarettes.
- (4) PRODUCT LENGTH: Refers to cigarette length by category (e.g., regular, king (or 70s, 85s, 100s, 120s)).
- (5) FILTER/NON-FILTER: Check one to indicate whether the particular variety has a filter.

- (6) VENTILATED/NON-VENTILATED: Check one to indicate whether the particular variety is ventilated or non-ventilated.
- (7) HARD PACK/SOFT PACK: Check one to indicate whether the particular variety is in a hard pack (or box) or soft pack.
- (8) MENTHOL/NON-MENTHOL/OTHER: Check one to indicate whether the particular variety is a menthol or non-menthol or other.
- (9) NUMBER PER PACK: Refers to the pack size in which the variety is typically offered for sale (20s, 25s).
- (10) "TAR"/NICOTINE/CARBON MONOXIDE: Refers to the "tar," nicotine and carbon monoxide content of the variety from data generated by the Tobacco Institute Testing Laboratory (TITL) using the FTC method or if not tested by the TITL then from data generated by or for the company using the FTC method.
- (11) VARIETY UNIT SALES: Report one figure for total variety sales in the United States during the calendar year covered by the Report. Sales in the United States include:
  - (a) all sales within the 50 states, the District of Columbia and United States territorial possessions;
  - (b) all sales to members of the Armed Forces of the United States located outside the 50 states, the District of Columbia and United States territorial possessions; and
  - (c) all sales for delivery to a vessel or aircraft of the Armed Forces of the United States, as supplies, for consumption beyond the jurisdiction of the internal revenue laws of the United States.
- (12) VARIETY DOLLAR SALES: Report dollar value for total variety sales in the United States during the calendar year covered by this Report.
- (13) FIRST SALES DATE/LAST SALES DATE: This item should be completed only if the variety was first offered for sale or was discontinued during the calendar year covered by the Cigarette Report Form.
- (14) CAT-A-EXPENSES: Newspaper advertising but excluding, if practicable, those expenditures covered by Categories I, J, K or M, which should be reported in those categories.
- (15) CAT-B-EXPENSES: Magazine advertising but excluding, if practicable, those expenditures covered by Categories I, J, K or M, which should be reported in those categories.

- (16) CAT-C-EXPENSES: Outdoor advertising but excluding, if practicable, those expenditures covered by Categories I, J, K or M, which should be reported in those categories.
- (17) CAT-D-EXPENSES: All expenditures for audio-visual or video advertising on any medium of electronic communication not subject to the jurisdiction of the Federal Communications Commission. This category includes, but is not limited to, advertisements on: screens at motion picture theatres, television screens or monitors in residential dwellings, as in certain televised programs and through video cassette entertainment products; and television screens or monitors in commercial establishments, such as video arcades.
- (18) CAT-E-EXPENSES: Advertising in or on public transportation facilities but excluding, if practicable, those expenditures covered by Categories I, J, K or M, which should be reported in those categories.
- (19) CAT-F-EXPENSES: Direct mail advertising but excluding, if practicable, those expenditures covered by Categories I, J, K or M, which should be reported in those categories.
- (20) CAT-G-EXPENSES: Point of sale advertisements but excluding, if practicable, those expenditures covered by Categories H, I, J, K or M, which should be reported in those categories.
- (21) CAT-H-EXPENSES: Promotional allowances paid to retailers and any other persons (other than full-time company employees who are involved in the cigarette distribution and sales process) in order to facilitate the sale of any cigarette but excluding, if practicable, those expenditures covered by Categories A-F, which should be reported in those categories.
- (22) CAT-I-EXPENSES: Sampling of cigarettes, including the costs of the cigarettes themselves and the costs of organizing, promoting and conducting sampling.
- (23) CAT-J-EXPENSES: All costs of distributing items other than cigarettes, including the cost of such items, whether distributed by sale, redemption of coupons, or otherwise, including all items which do and do not bear the name or depict any portion of the package of any variety of cigarettes sold by the company. The expenditures reported in this item shall be the net cost to the company, i.e., payments received from consumers for such items shall be deducted. Whenever such activities are combined with cigarette sampling, the expenditures connected therewith shall be reported solely in Category I.

- (24) CAT-K-EXPENSES: Public entertainment events bearing or otherwise displaying the name of the company or any of its cigarettes. This item includes all expenditures made by the company in promoting and/or sponsoring such events.
- (25) CAT-L-EXPENSES: Endorsements and testimonials but excluding, if practicable, those expenditures covered by Categories A-G, or K, which should be reported in those categories. This item includes, but is not limited to, all expenditures made to procure cigarette use, or the mention of a cigarette product or company name, or the appearance of a cigarette product or name, or package, in any situation (e.g., motion pictures, television show or program, stage shows, public appearance by a celebrity) where such use, mention or appearance may come to the attention of the public.
- (26) CAT-M-EXPENSES: Retail value added and coupons: All expenditures and costs associated with the value added to the purchase of cigarettes: to include but not limited to, buy one get one free, buy two get one free; and all expenditures and costs associated with coupons for the reduction of the retail cost of cigarettes, whether redeemed at the point of sale or by mail, including but not limited to all costs associated with advertising or promotion, design, printing, distribution and redemption.
- (27) CAT-N-EXPENSES: Any advertising or promotional expenditures not covered by another reporting category. Specify the total amount on the form and briefly describe the specific subject matter of each such expenditure.
- (28) TOTAL REPORTABLE EXPENDITURES FOR VARIETY: Refers to reportable expenditures for the variety as defined in the appropriate explanatory notes. The figure provided for total reportable expenditures should equal the sum of the expenses listed in Categories A-N for the variety.
- (29) SPORTS AND SPORTING EVENTS: The following reported expenditures are intended to be duplicative of expenditures listed above on lines 14 through 27 and totaled on line 28. Do not report any expenditure on this line which has not also been reported on lines 14 through 27. For example, advertising expenditures for a sporting event that appears in a newspaper would be reported on line 14 and on line 29, a miscellaneous advertising expenditure for promotion of a sports team would be reported on lines 27 and 29.

Report all items that include but are not limited to all expenditures connected with or related to the sponsoring, advertising or promotion of sports or sporting events, support of an individual, group or sports team, and

purchase of or support for sports equipment, uniforms, sports facilities and or training facilities, and all expenditures for advertising including but not limited to print, television, radio, billboards, banners, etc. in the name of the company or any of its cigarette brands in a sports facility, on a scoreboard or in conjunction with the reporting of sports results; and all expenditures connected with the production, offer, sale, or provision without fee of all functional promotional items at or in connection with a sporting event, including but not limited to, clothing, hats, bags, posters, sporting goods and equipment.

#### OTHER EXPLANATORY NOTES

Reportable expenditures, that is expenditures on lines 14 through 27, should be included in only one category except for expenditures reported on line 29 (Sports). Expenditures for line 29 are duplicative of expenditures reported on lines 14 through 27. Reportable expenditures (line 14 through 27) should equal the total on line 28, and should equal the total cost to the company of administering the activity involved, including commissions and other payments made to separate organizations such as advertising agencies. Such expenditures should not include the costs of employing full-time employees of the company or any overhead expenses attributable to the activities of such company employees.

For the purposes of the Cigarette Report Form, the term "advertising" refers to all activities relating to cigarettes that are intended or likely to be seen or heard by members of the public. The term "advertising" does not refer to and should not be construed to include: (1) company or divisional names, when used as such within the context of an advertisement relating to cigarettes; (2) signs on factories, plants, warehouses and other facilities related to the manufacture or storage of cigarettes; (3) corporate or financial reports; (4) communications to security holders of the company and to others who customarily receive such communications; and (5) employment advertising.

The cost accounting procedure to be used in assigning an expenditure to a particular calendar year shall be the accrual rather than the cash basis of accounting.

In allocating reportable expenditures among brand varieties, the following guidelines should be followed:

(1) If the accounting or bookkeeping records of the company confirm that a particular expenditure related to only one brand variety, the expenditure should be entered in the appropriate category on the report sheet for that variety.

(2) If the expenditure related to more than one brand variety, or the accounting or bookkeeping records of the company do not reflect to which brand variety or varieties the expenditure relates, the expenditure should be allocated among the smallest number of brand varieties that can be identified as having been the subject of the expenditure. Such allocation should be based on the unit sales of the variety or varieties involved, as reflected by the appropriate Cigarette Report Forms. For example, to the extent not already allocated, brand family advertising should be allocated among all varieties within the brand family according to the share of that variety of the total sales of the brand family. Expenditures for two or more brand families should be allocated similarly on a market share basis both among and within the brand families involved.

It is recognized that certain of the allocations required by the guidelines set forth above will be arbitrary. In making the requested allocations, the company involved is not being asked to certify or warrant that the allocations precisely reflect either the subject or intent of the expenditures being reported.

You are advised that penalties may be imposed under applicable provisions of federal law for failure to file special reports or for filing false reports.

The Special Report called for in this Order is to be filed on or before

By direction of the Commission.



Daniel Oliver  
Chairman

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Date of Order: July 24, 1989

The Report required by this Order, or any inquiry concerning it, should be addressed to the attention of:

Judith P. Wilkenfeld  
Program Advisor  
Cigarette Advertising and Testing  
Federal Trade Commission  
Washington, D.C. 20580